CHAPTER II

INTERNATIONAL TRADE AS A TEST OF NATIONAL PROSPERITY

It is said that the volume of a country's foreign trade is a fairly good test of its prosperity. Mere volume is not necessarily an accurate index. We must not judge prosperity by the quantity of external trade. We must go behind the returns, "imports and exports" and judge each item. Especially we must consider that

1) the mere size of trade or the mere quantitative increase is not a reliable test. Thus a country may have a large transit trade which no doubt adds to its earnings but which does not form part of her foreign trade. Thus the trade figures of Belgium and Holland are swollen because they are inlets and outlets of German trade.

Further the size of the economic unit also affects the volume. e.g. a small country like England depends on foreign supplies, while a large country like United States of America is more or less self-sufficient yet both may be equally prosperous in spite of the disparity in their foreign trade.

Moreover as culture advances, the productive capacity of a country may be devoted to producing services that do not enter into the statistics of foreign trade. For example, the shipping and banking services that England renders to a great part of the world.

2) The mere excess of exports over imports, i.e., a "favourable" or "unfavourable" balance of trade as it is called is not sufficient to indicate whether a country is prosperous or the reverse. India has normally an excess of exports, that is a favourable trade balance while England has an excess of imports, that is, an unfavourable trade balance. Yet England is much more prosperous than India. The excess of exports in a country like England may be on account of services rendered ~~by~~ to foreigners ~~to~~ by her and capital borrowed from her by foreign countries. We must enquire into the nature of these services and judge how far they are necessary and beneficial to the country. We must also scrutinize the import of capital and inquire how far such an import is necessary and how far it will be utilised for the proper development of the resources of the country.

3) Nature of goods imported or exported. Harmful goods like opium or alcohol may be imported while raw produce and raw materials which can be turned to account within the country may be exported. Foreign trade may on the one side over-emphasize the agricultural and extractive basis of a country's economic life. It may therefore lack the stimulus and culture of a nervous town life, and have no access to the economies of manufactures on a large scale. On the other side foreign trade may ~~yield~~ lead to the over-development of industrialism and aggregation of population in a few localities bringing in its train over-crowding, insanitation, slums and